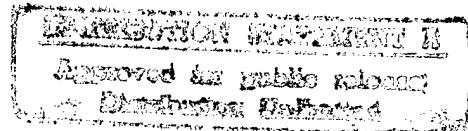


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Confluence of Change: Domestic and International Realignment in Japan

With one party no longer dominating its political system, Japan likely will enter a period of political fluidity and weak governments that will last well into the 21st century.

This flux—the consequence of sweeping political, economic, and social changes at home and abroad that have taken place over the past decade and that will continue beyond the turn of the century—will redefine and redirect Japan's policy priorities. The deep and uninterrupted security relationship that Japan has enjoyed with the United States since 1945 will remain the bedrock feature of Japan's international policy. But a new Japan is emerging by fits and starts, one that is more closely linked to the economies of its East Asian neighbors and less dependent on trade and security ties with the United States.

The factors underlying Japan's redirection are dramatic and touch every facet of Japanese society. A new generation of political and economic leaders is replacing the old guard that has ruled since 1945. Japan's closed, distributor-heavy economic infrastructure is giving way to a more open, market-driven system. And according to recent public opinion polls, growing numbers of Japanese want the country to take on broader, more activist international responsibilities in the post-cold war world.

These are the conclusions of a recent study of domestic change and foreign policy in Japan performed by RAND's National Defense Research Institute. Employing interviews with Japanese politicians, bureaucrats, journalists, business leaders, and scholars, the study analyzed politics, economics, and attitudes in Japan to gauge their impact on Japanese and U.S. policies in the Asia-Pacific region over the next decade or more.

The bottom line is that Japanese security policies will not proceed along one consistent path during this period of change. The following are among the alternative policy routes that Japan may choose:

- Stay the course, maintaining trade and security postures that have been in place for the past 50 years.

- Create a multilateral security system throughout the Asia-Pacific region to complement the U.S. security relationship.
- Move to increase Japanese participation in the United Nations.
- Attempt to more closely integrate its economy with the economic systems of other East Asian countries through regional bodies such as the Asia-Pacific Economic Cooperation council.

At the extreme, the flux could usher in a new era of xenophobia, affecting economics, politics, culture, and the military.

DOMESTIC AND ECONOMIC CHANGE IN JAPAN

In part, Japan's changes are the product of the cold war's end. No other major power benefited as much in economic and security terms as Japan did by aligning with the United States in the Soviet-American competition. And with the disappearance of that competition, Japanese leaders have been forced to rethink not so much whether as how to maintain that political alignment with the United States.

Japan's changes also stem from a generational shift. Gone are the days when Japan's leadership was made up of people shaped by the country's struggle to emerge from World War II. As in the United States, postwar baby boomers are coming to leadership, bringing with them different views from their predecessors' on politics, economics, and Japan's role in international affairs.

REPLACING LIBERAL DEMOCRATIC RULE

The era of Liberal Democratic rule ended in 1993. Since then, coalition governments have ruled Japan. Political reform took another turn in early 1994 when Japan adopted a new electoral system combining single-seat constituencies and proportional representation. That replaced the old system of multiseat medium-sized dis-

tricts that had produced nearly 40 years of uninterrupted Liberal Democratic Party rule.

On the one hand, coalitions have blunted the sharp ideological divisions that defined the context of security policymaking for much of the preceding postwar era. Political support for the extreme alternatives of the nationalist right or the neutralist left has waned.

But on the other hand, political realignment has reshaped public debate about security policy. Supporters of pro-American policies no longer confront backers of a more independent, pacifist Japan. Rather, debate now focuses on concrete issues—how much of the alliance burden Japan should shoulder, the relative merits of military versus nonmilitary security measures, and how to interpret Japan's constitution in light of shifting security considerations.

CREATING A POSTRECESSION ECONOMY

Japan has been in the throes of one of the worst economic recessions since the end of World War II. Since 1988, the nation's annual growth rates in terms of real gross domestic product (GDP) have fallen sharply. In 1993, Japan's GDP in real terms dropped by 0.2 percent. This was the worst performance since the 1974 oil crisis, when GDP declined by 0.6 percent.

The latest recession has been more structural than cyclical. It stemmed from the collapse of Japan's "bubble economy" in early 1990, which severely strained Japanese financial institutions and dampened consumer spending as well as business investment. Moreover, the recession resulted from overcapacity in Japanese factories and manufacturing facilities. With the global economic downturn, Japan has had great difficulty in finding markets for the output of the plants and equipment it invested in during the late 1980s; Japanese industry has had to shave capacity and employees. Finally, the yen has appreciated to such a degree over the past five years that Japan's products are more and more expensive abroad.

In this economic environment, Japanese firms no longer see the United States as the most attractive country for expanding exports or for direct investments. Increasingly, Japanese companies look to transfer production facilities to East Asia to take advantage of lower labor

costs and growing markets. As Japan embraces this "New Asianism," U.S. economic leverage over countries in the region will diminish.

NEW CHALLENGES FOR U.S. POLICYMAKERS

Given this new environment, Japan's policies toward the United States and its East Asian neighbors will evolve. Here is how some of the changes may play out:

- **Japanese nationalism may rise.** Under the most likely scenarios, political realignment will not alter the moderate security policy stance that Japan has held throughout the postwar period. But there is an outside chance that stridently nationalistic political elements could emerge in Japan. This would be most likely if economic relations with the United States deteriorated, the U.S. security commitment to Japan weakened, Chinese geopolitical assertiveness increased, and a hostile, reunited Korea emerged.
- **Traditional Japanese business practices will evolve in response to continued economic recession.** The economic downturn is causing Japan's leaders to reexamine the validity of long-standing economic policies and business practices. At the same time, it is forcing Japanese manufacturers to lower their output and adopt flexible employment practices.
- **Export-led development may be a growing Japanese export.** Japan may pose a dual trade threat to the United States: directly, by exporting goods, and indirectly, by exporting production know-how to other East Asian countries, which in turn export to the United States.
- **Japan may be less obliged to succumb to U.S. trade pressure.** Japan's exports to East Asia surpassed its outbound trade to the United States in 1990, and the gap has grown ever since. This export diversity gives Japan the ability to turn to multilateral institutions to resist U.S. trade pressure.
- **Japan may become a bridge between the United States and East Asia.** As its non-U.S. trade within the Asia-Pacific region becomes more dominant, Japan may see its role as one of trying to be a bridge between East Asia and the West.

RAND research briefs summarize research that has been more fully documented elsewhere. This research brief describes work done for the National Defense Research Institute; it is documented in Japan—Domestic Change and Foreign Policy, by Mike M. Mochizuki, MR-616-OSD, 1995, 102 pp., \$15.00, ISBN: 0-8330-2308-X, available from RAND Distribution Services (Telephone: 310-451-7002; FAX: 310-451-6915; or Internet: order@rand.org). Abstracts of all RAND documents may be viewed on the World Wide Web (<http://www.rand.org>). Publications are distributed to the trade by National Book Network. RAND is a nonprofit institution that helps improve public policy through research and analysis; its publications do not necessarily reflect the opinions or policies of its research sponsors.

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1700 Main Street, P.O. Box 2138, Santa Monica, California 90407-2138 • Telephone 310-393-0411 • FAX 310-393-4818
2100 M St., N.W., Washington, D.C. 20037-1270 • Telephone 202-296-5000 • FAX 202-296-7960

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